

EXECUTIVE SUMMARY

A REPORT OF THE ECONOMIC IMPACT OF MEOW WOLF CREATIVE STUDIOS IN SANTA FE, NM

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Prepared using Total Impact



PURPOSE & LIMITATIONS

This report presents the results of an analysis undertaken by the New Mexico Economic Development Department using Total Impact, an economic and fiscal impact analysis tool developed and supported by the Austin, TX based economic consulting firm, Impact DataSource.

The Total Impact model is a customized software program licensed to the New Mexico Economic Development Department. The model includes estimates, assumptions, and other information developed by Impact DataSource from its independent research effort detailed in New Mexico Economic Development Department's Total Impact User Guide.

The analysis relies on prospective estimates of business activity that may not be realized. New Mexico Economic Development Department made reasonable efforts to ensure that the project-specific data entered into the Total Impact model reflects realistic estimates of future activity.

No warranty or representation is made by New Mexico Economic Development Department or Impact DataSource that any of the estimates or results contained in this study will actually be achieved.



CONTENTS

Economic Impact	
Introduction.....	4
Description of the Project.....	4
Existing & Expanded Operations.....	4
Economic Impact Overview.....	5
Temporary Construction Impact.....	7
Fiscal Impact	
Fiscal Impact Overview.....	8
State of New Mexico.....	9
Santa Fe.....	10
Santa Fe County.....	11
Santa Fe Public Schools.....	11
Other Taxing Districts.....	12
Methodology	
Overview of Methodology	14
About Impact DataSource.....	16

Introduction

This report presents the results of an economic impact analysis performed using Total Impact, a model developed by Impact DataSource. The report estimates the impact that a potential project in Santa Fe may have on the state and local economy and estimates the costs and benefits for the state and local taxing districts over a 10-year period.

Description of the Project

The Economic Development Department wishes to understand Meow Wolf's economic benefit to New Mexico through the support of LEDA funding. Meow Wolf started in Year 1 with operations in Santa Fe with the opening of the tourist attraction called the House of Eternal Return. The report will assess the economic benefit Meow Wolf has on Santa Fe and New Mexico overall. In addition to its ongoing annual activity, we are adding Meow Wolf Inc. Creative Studios Manufacturing Center. This project can only be realized through LEDA support from New Mexico Economic Development Department and the City of Santa Fe. This would maintain Meow Wolf's development and corporate Head Quarters in Santa Fe, New Mexico. This is a manufacturing center in Santa Fe, New Mexico where Meow Wolf will manufacture for the next major market. The new headquarters will be used to create exhibits for export, R&D on new products, and other manufacturing developments that impact the immersive arts markets that the company is exploring. At the new location, new arts, technology and products are fabricated - manufactured for export outside of the state of New Mexico. This includes the manufacturing and production of exhibits that will be used in major markets across the United States, such as Denver and the Austin market, which have been identified as expansion sites. Also there are potential benefits of manufactured arts products, which may be sold retail/wholesale, including contract projects for artistic creations - such as manufactured products that are sold at national music festivals. Meow Wolf Inc. will purchase a 50,000 sq. ft. manufacturing facility just off of Airport Road where it will house the manufacturing operations supported by an additional 250 employees.

Existing & Expanded Operations

The Project under analysis represents the expansion of an existing company in the Santa Fe. The existing operations currently support 60.0 direct jobs in the community and 42.6 indirect and induced jobs. The direct workers earn \$38,000 per year and the company supports \$10.6 million per year in taxable sales and spending in the community. Additionally, the company supports taxable property valued at \$6.7 million annually. The table below illustrates the company's economic impact over the next 10 years - including both the existing and expanded operations.

Table 1. Economic Impact of Existing and Expanded Operations Over the Next 10 Years

	Existing Operations	Expansion	Existing & Expanded Ops
Economic Output:			
Direct	\$134,454,544	\$562,123,111	\$696,577,654
Indirect & Induced	\$60,275,972	\$251,999,791	\$312,275,762
Total	\$194,730,515	\$814,122,901	\$1,008,853,417
Jobs			
Direct	60.0	350.0	410.0
Indirect & Induced	42.6	248.5	291.1
Total	102.6	598.5	701.1
Salaries			
Direct	\$24,965,362	\$153,963,470	\$178,928,832
Indirect & Induced	\$17,705,436	\$109,190,891	\$126,896,327
Total	\$42,670,798	\$263,154,361	\$305,825,159
Taxable Sales			
Direct	\$101,988,652	\$142,244,522	\$244,233,173
Indirect & Induced	\$3,859,167	\$23,799,807	\$27,658,975
Total	\$105,847,819	\$166,044,329	\$271,892,148

The table below illustrates the company's fiscal impact - the net benefits for local taxing districts - over the next 10 years - including both the existing and expanded operations.

Table 2. Fiscal Impact of Existing and Expanded Operations Over the Next 10 Years

	Net Benefits		
	Existing Operations	Expansion	Existing & Expanded Ops
State of New Mexico	\$7,642,330	\$28,742,933	\$36,385,262
Santa Fe	\$4,589,339	\$5,633,700	\$10,223,039
Santa Fe County	\$2,172,199	\$2,977,574	\$5,149,772
Santa Fe Public Schools	\$169,420	\$1,063,562	\$1,232,983
Special Taxing Districts	\$76,323	\$183,216	\$259,539
Total	\$14,649,610	\$38,600,985	\$53,250,595

The remainder of this report will focus on only the economic and fiscal impact associated with the expanded operations.

Economic Impact Overview

The Project's operations will support employment and other economic impacts in the state. The 350.0 workers directly employed by the Project will earn approximately \$50,000 per year initially. This direct activity will support 248.5 indirect and induced workers in the state earning \$50,000 on average. The total additional payroll or workers' earnings associated with the Project is estimated to be approximately \$263.2 million over the next 10 years.

Accounting for various taxable sales and purchases, including activity associated with the Project, worker spending, and visitors' spending in the state, the Project is estimated to support approximately \$166.0 million in taxable sales over the next 10 years.

Table 3. Economic Impact Over the Next 10 Years Statewide

	Direct	Indirect & Induced	Total
Economic output generated by direct, indirect, and induced activity	\$562,123,111	\$251,999,791	\$814,122,901
Number of permanent direct, indirect, and induced jobs to be created	350.0	248.5	598.5
Salaries to be paid to direct, indirect, and induced workers	\$153,963,470	\$109,190,891	\$263,154,361
Taxable sales and purchases	\$142,244,522	\$23,799,807	\$166,044,329

The project is not expected to result in a consequential increase in the state's population. A majority of newly hired employees would likely be current New Mexico residents. However, it is estimated that approximately 20.0% of the new direct workers may be new residents to Santa Fe County. The local population impacts may result in new residential properties constructed in the county and increase the enrollment of local public schools.

Table 4. Population Impacts Over the Next 10 Years for the County

	Direct	Indirect & Induced	Total
Number of direct, indirect, and induced workers who will move to the County	70.0	26.6	96.6
Number of new residents in the County	182.0	69.3	251.3
Number of new residential properties to be built in the County	7.1	2.7	9.8
Number of new students expected to attend local school district	35.0	13.3	48.3

The Project is estimated to support an average of approximately \$4.1 million in new non-residential taxable property each year over the next 10 years. The taxable value of property supported by the Project over the 10-year period is shown in the following table.

Table 5. Value of Taxable Property Supported by the Project Over the Next 10 Years

Year	New Residential Property	The Project's Property				Total Residential & Nonresidential Property
		Land	Buildings & Other Real Prop. Improvements	Furniture, Fixtures, & Equipment	Subtotal Nonresidential Property	
1	\$90,900	\$0	\$0	\$1,000,000	\$1,000,000	\$1,090,900
2	\$185,436	\$233,333	\$1,000,000	\$1,566,667	\$2,800,000	\$2,985,436
3	\$283,717	\$338,000	\$1,253,333	\$2,066,667	\$3,658,000	\$3,941,717
4	\$385,855	\$344,760	\$1,278,400	\$2,500,000	\$4,123,160	\$4,509,015
5	\$491,965	\$351,655	\$1,637,301	\$2,533,333	\$4,522,290	\$5,014,255
6	\$602,166	\$358,688	\$1,670,047	\$2,533,333	\$4,562,069	\$5,164,235
7	\$716,577	\$365,862	\$2,036,782	\$2,500,000	\$4,902,644	\$5,619,221
8	\$730,909	\$373,179	\$2,077,517	\$2,433,333	\$4,884,030	\$5,614,939
9	\$745,527	\$380,643	\$2,452,401	\$2,333,333	\$5,166,377	\$5,911,904
10	\$760,437	\$388,256	\$2,834,782	\$2,300,000	\$5,523,038	\$6,283,475

The taxable value of residential property represents the value of properties that may be constructed as a result of new workers moving to the community.

This analysis assumes the residential real property appreciation rate to be 2.0% per year. The Project's real property is assumed to appreciate at a rate of 2.0% per year. The analysis assumes the Project's furniture, fixtures, and equipment will depreciate over time according to the depreciation schedule shown in Appendix A.

Temporary Construction Impact

The Project will include an initial period of construction lasting 0 year(s) where \$3.7 million will be spent to construct new buildings and other real property improvements. It is assumed that 50.0% of the construction expenditure will be spent on materials and 50.0% on labor. The temporary construction activity will support temporary economic impacts in the community in the form of temporary construction employment and sales for local construction firms.

Table 5. Spending and Estimated Direct Employment Impact of Project-Related Construction Activity

	Amount
Total construction expenditure	\$3,700,000
Materials	\$1,850,000
Labor	\$1,850,000
Temporary Construction Workers Supported (Average Earnings = \$44,250)	41.8

The following table presents the temporary economic impacts resulting from the construction.

Table 6. Temporary Economic Impact of Project-Related Construction Activity

	Direct	Indirect & Induced	Total
Number of temporary direct, indirect, and induced job years to be supported*	41.8	25.6	67.4
Salaries to be paid to direct, indirect, and induced workers	\$1,850,000	\$861,175	\$2,711,175
Revenues or sales for businesses related to construction	\$3,700,000	\$2,783,880	\$6,483,880

* A job year is defined as full employment for one person for 2080 hours in a 12-month span.

Gross receipt tax calculations related to construction activity are presented in the following table. The gross receipts tax revenue generated from construction-period taxable spending is included in the fiscal impact for affected districts.

Table 7. Construction-Related Taxable Spending

	Estimate
Expenditure for Materials	\$1,850,000
Percent of Materials subject to local gross receipts tax	75.0%
<u>Subtotal Taxable Materials</u>	<u>\$1,387,500</u>
Expenditure for Labor / Paid to construction workers	\$1,850,000
Percent of gross earnings spent on taxable goods and services	26.0%
Percent of taxable spending done locally	25.0%
<u>Subtotal Taxable Construction Worker Spending</u>	<u>\$120,250</u>
Expenditure for Furniture, Fixtures, & Equipment (FF&E)	\$0
Percent of FF&E subject to local gross receipts tax	25.0%
<u>Subtotal Taxable FF&E Purchases</u>	<u>\$0</u>
Total Construction-Related Taxable Spending	\$1,507,750

The above construction analysis focuses on the impact resulting from the Project's initial construction investments over the first 0 year(s). This report incorporates parallel calculations for investments/construction occurring in later years as well.

Fiscal Impact Overview

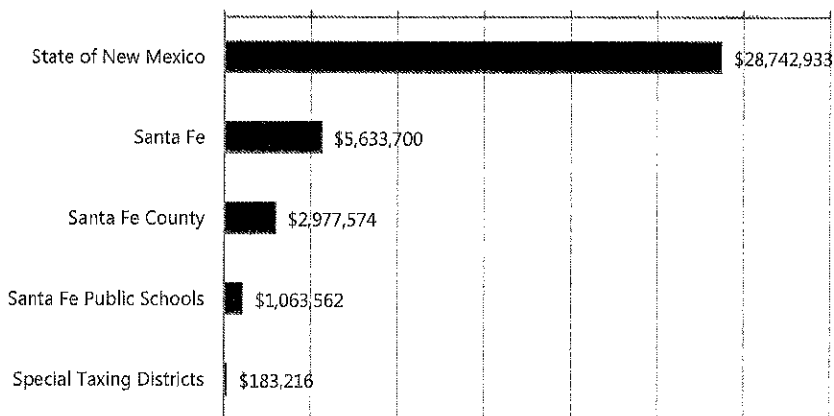
The Project will generate additional benefits and costs for local taxing districts, a summary of which is provided below. The source of specific benefits and costs are provided in greater detail for each taxing district on subsequent pages. Overall, the City will receive approximately \$5,633,700 in net benefits over the 10-year period and the Project will generate \$38,601,000 in total for all local taxing districts.

Table 8. Fiscal Net Benefits Over the Next 10 Years for the State and Local Taxing Districts

	Benefits	Costs	Net Benefits	Present Value of Net Benefits*
State of New Mexico	\$38,497,614	(\$9,754,681)	\$28,742,933	\$20,777,414
Santa Fe	\$7,671,815	(\$2,038,116)	\$5,633,700	\$4,235,910
Santa Fe County	\$3,476,714	(\$499,140)	\$2,977,574	\$2,234,661
Santa Fe Public Schools	\$2,025,213	(\$961,650)	\$1,063,562	\$769,310
Special Taxing Districts	\$183,216	\$0	\$183,216	\$135,465
Total	\$51,854,572	(\$13,253,587)	\$38,600,985	\$28,152,759

* The Present Value of Net Benefits expresses the future stream of net benefits received over several years as a single value in today's dollars. Today's dollar and a dollar to be received at differing times in the future are not comparable because of the time value of money. The time value of money is the interest rate or each taxing entity's discount rate. This analysis uses a discount rate of 5% to make the dollars comparable.

Figure 1. Net Benefits Over the Next 10 Years for the State and Local Taxing Districts



State of New Mexico

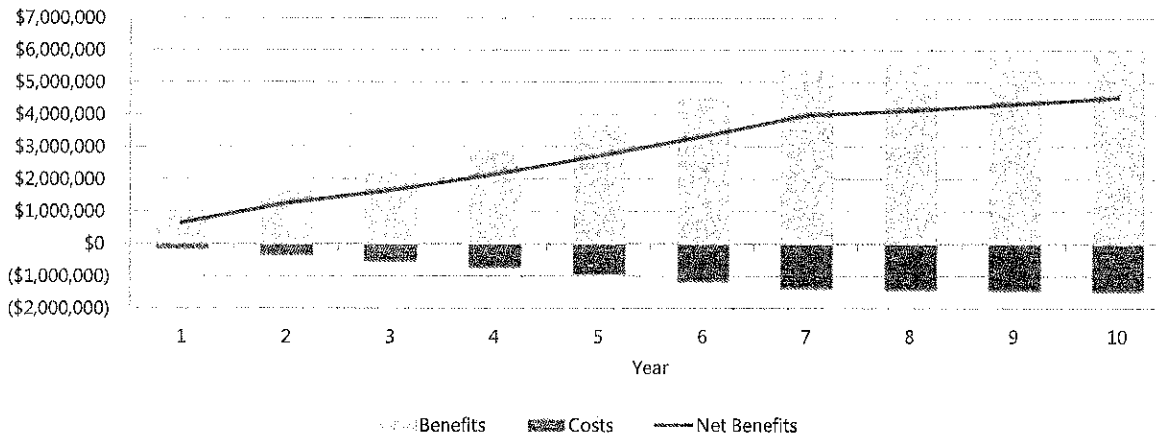
The table below displays the estimated additional benefits to be received by the State of New Mexico over the first 10 years. The project is expected to have a small effect on the statewide population and therefore some additional statewide costs to provide additional services were estimated for the state. Appendix C contains the year-by-year calculations.

Table 9. State of New Mexico: Benefits, Costs, and Net Benefits Over the Next 10 Years

	Amount
Gross Receipts Taxes	\$6,475,729
Real Property Taxes - Project	\$26,350
FF&E Property Taxes - Project	\$29,603
Property Taxes - New Residential	\$6,791
Personal Income Taxes	\$11,078,799
Corporate Income Taxes	\$1,390,333
Miscellaneous Taxes & User Fees	\$19,490,010
Subtotal Benefits	\$38,497,614
Cost of Providing State Services	(\$9,754,681)
Subtotal Costs	(\$9,754,681)
Net Benefits	\$28,742,933
<i>Present Value (5% discount rate)</i>	<i>\$20,777,414</i>

Gross receipts taxes are estimated on new taxable gross receipts resulting from the project. Property taxes are estimated on the firm's property and new residential property constructed. Personal income taxes are estimated based on an effective income tax rate and the earnings of new direct and indirect workers. Corporate income taxes on the direct activity is based on the net taxable income projected by the company. Corporate income taxes on the indirect activity is estimated on a per indirect worker basis and the observed statewide corporate income tax collections per worker. To the extent that the project will result in an increase in new households in the state, additional miscellaneous taxes and user fees have been estimated for the state. Additionally, the costs to provide state services to these new households were also estimated based on recent state expenditure data as detailed in the Appendix.

Figure 2. Annual Fiscal Net Benefits for the State of New Mexico



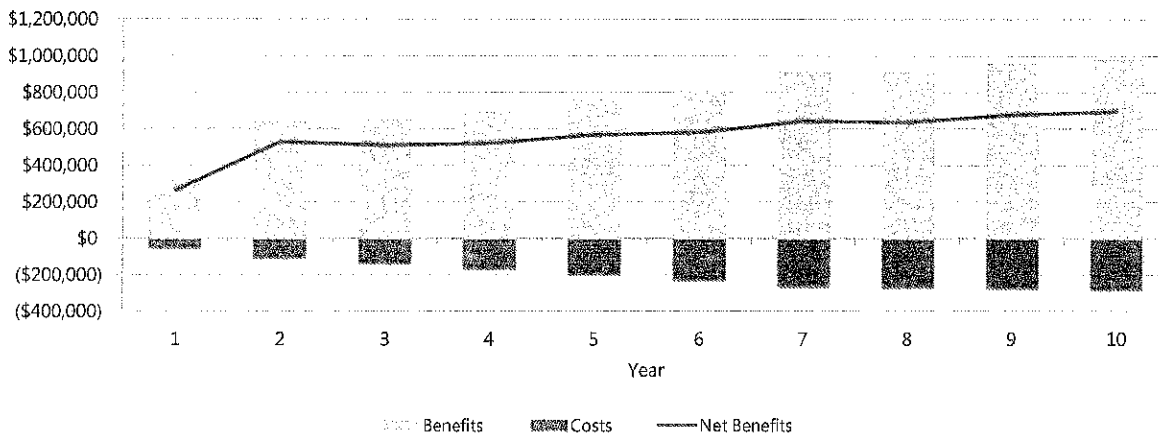
Santa Fe

The table below displays the estimated additional benefits, costs, and net benefits to be received by the City over the next 10 years of the Project. Appendix C contains the year-by-year calculations.

Table 10. Santa Fe: Benefits, Costs, and Net Benefits Over the Next 10 Years

	Amount
Gross Receipts Taxes	\$5,661,450
Real Property Taxes - Project	\$72,734
FF&E Property Taxes - Project	\$81,712
Property Taxes - New Residential	\$11,845
Utility Revenue	\$1,139,939
Utility Franchise Fees	\$97,939
Building Permits and Fees	\$60,000
Lodgers Taxes	\$0
Miscellaneous Taxes & User Fees	\$546,197
Subtotal Benefits	\$7,671,815
Cost of Providing Municipal Services	(\$863,978)
Cost of Providing Utility Services	(\$1,174,137)
Subtotal Costs	(\$2,038,116)
Net Benefits	\$5,633,700
<i>Present Value (5% discount rate)</i>	<i>\$4,235,910</i>

Figure 3. Annual Fiscal Net Benefits for the Santa Fe



Santa Fe County

The table below displays the estimated additional benefits, costs, and net benefits to be received by the County over the next 10 years of the Project. Appendix C contains the year-by-year calculations.

Table 11. Santa Fe County: Benefits, Costs, and Net Benefits Over the Next 10 Years

	Amount
Gross Receipts Taxes	\$2,405,715
Real Property Taxes - Project	\$266,599
FF&E Property Taxes - Project	\$299,509
Property Taxes - New Residential	\$56,200
Building Permits and Fees	\$60,000
Miscellaneous Taxes & User Fees	\$388,690
Subtotal Benefits	\$3,476,714
Cost of Providing County Services	(\$499,140)
Subtotal Costs	(\$499,140)
Net Benefits	\$2,977,574
Present Value (5% discount rate)	\$2,234,661

Santa Fe Public Schools

The table below displays the estimated additional benefits, costs, and net benefits to be received by the school district over the next 10 years of the Project. Appendix C contains the year-by-year calculations.

Table 12. Santa Fe Public Schools: Benefits, Costs, and Net Benefits Over the Next 10 Years

	Amount
Real Property Taxes - Project	\$171,817
FF&E Property Taxes - Project	\$193,027
Property Taxes - New Residential	\$42,804
State Equalization Guarantee	\$1,617,565
Subtotal Benefits	\$2,025,213
Cost of Educating New Students	(\$961,650)
Subtotal Costs	(\$961,650)
Net Benefits	\$1,063,562
Present Value (5% discount rate)	\$769,310

Benefits for Other Taxing Districts

The table below displays the estimated additional property taxes to be received by other property taxing districts over the next 10 years of the Project. Appendix C contains the year-by-year calculations.

Table 13. Other Taxing Districts: Benefits Over the Next 10 Years

	Amount
Real Property Taxes - Project	\$77,403
FF&E Property Taxes - Project	\$86,958
Property Taxes - New Residential	\$18,855
Benefits	\$183,216
<i>Present Value (5% discount rate)</i>	<i>\$135,465</i>

Overview of Methodology

This report presents the results of an analysis undertaken by the New Mexico Economic Development Department using Total Impact, an economic and fiscal impact analysis tool developed and supported by the Austin, TX based economic consulting firm, Impact DataSource.

The Total Impact model combines project-specific attributes with community data, tax rates, and assumptions to estimate the economic impact of the Project and the fiscal impact for local taxing districts over a 10-year period.

The economic impact as calculated in this report can be categorized into two main types of impacts. First, the direct economic impacts are the jobs and payroll directly created by the Project. Second, this economic impact analysis calculates the indirect and induced impacts that result from the Project. Indirect jobs and salaries are created in new or existing area firms, such as maintenance companies and service firms, that may supply goods and services for the Project. In addition, induced jobs and salaries are created in new or existing local businesses, such as retail stores, gas stations, banks, restaurants, and service companies that may supply goods and services to new workers and their families.

The economic impact estimates in this report are based on the Regional Input-Output Modeling System (RIMS II), a widely used regional input-output model developed by the U. S. Department of Commerce, Bureau of Economic Analysis. The RIMS II model is a standard tool used to estimate regional economic impacts. The economic impacts estimated using the RIMS II model are generally recognized as reasonable and plausible assuming the data input into the model is accurate or based on reasonable assumptions. Impact DataSource utilizes county-level multipliers to estimate the impact occurring at the sub-county level.

Two types of regional economic multipliers were used in this analysis: an employment multiplier and an earnings multiplier. An employment multiplier was used to estimate the number of indirect and induced jobs created or supported in the area. An earnings multiplier was used to estimate the amount of salaries to be paid to workers in these new indirect and induced jobs. The employment multiplier shows the estimated number of total jobs created for each direct job. The earnings multiplier shows the estimated amount of total salaries paid to these workers for every dollar paid to a direct worker. The multipliers used in this analysis are listed below:

Multiplier		City	County	State
Employment Multiplier	(Type II Direct Effect)	1.2852	1.3803	1.7101
Earnings Multiplier	(Type II Direct Effect)	1.2849	1.3798	1.7092

Calculation of Fiscal Impact

Calculation of Revenues for the State

The state's revenues from gross receipts taxes, property taxes, personal and corporate income taxes were estimated directly using data entered about the project and state tax rates and assumptions about workers moving to the area and possibly building new property.

Impact DataSource estimated the miscellaneous taxes and user fees as a function of statewide personal income. The data used to estimate these factors were obtained from the US Census of Governments and the Bureau of Economic Analysis. Next, these percentages were applied to the total increase in workers' earnings from the economic impact calculations to determine the annual miscellaneous taxes and user fees to be collected by the state related to the permanent increase in economic activity supported by the project.

The fiscal costs associated with the project result from the portion of new worker households that relocate to New Mexico to take a job and the resulting costs to provide state services to these new residents. Impact DataSource estimated the cost of providing state services to new worker households moving to the state by applying the average per household cost of state expenditures to the estimated number of new workers new to the state.

Impact DataSource determined the marginal cost to provide state government services on per household in the state by using approximately 40% of the average cost. The data used to estimate these costs were obtained from the US Census of Governments and US Census. On average, the state incurs \$5,000 in costs to provide these services to households.

Calculation of Revenues for the City

The city's revenues from gross receipts taxes, property taxes, city-owned utilities, utility franchise fees, lodging taxes, and building permits and fees were estimated directly using data entered about the project and local tax rates and assumptions about workers moving to the area and possibly building new property.

The new firm was not asked for nor could reasonably provide some data for calculating some other revenues for the city. For example, while the city will likely receive revenues from fines paid on speeding tickets given to new workers at the firm, the firm may not reasonably know the propensity of its workers to speed. Therefore, some other city revenues were calculated using an average revenue approach. This approach uses two assumptions:

- 1 - The city has two general revenue sources -- revenues from residents and revenues from businesses.
- 2 - The city will collect (a) about the same amount of other revenues from each household of new workers that may move to the city as it currently collects from an average household of existing residents, and (b) about the same amount of other revenues from the new firm (on a per worker basis) will be collected as the city collects from other businesses in the city.

Using this average revenue approach, revenues likely to be received by the city were calculated from the households of new workers who may move to the city and from the new firm using average city revenues per household and per worker calculations. These revenues are labeled as miscellaneous taxes and user fees.

The total annual city revenues used to make average revenue calculations in this analysis were obtained from the city's latest annual budget and the per household and per worker and calculations are detailed in Appendix A.

Calculation of Costs for the City

This analysis sought to answer the question, what additional monies will the city have to spend to provide services to households of new workers who may move to the city and to the firm. A marginal cost approach was used to calculate additional city costs from the new firm and its workers.

This approach uses two assumptions:

- 1 - The city spends money on services for two general groups -- residents and businesses.
- 2 - The city will spend (a) about the same amount for variable or marginal cost for each household of new workers that may move to the city as it currently spends for an average household of existing residents, and (b) about the same amount for variable or marginal costs for the new firm (on a per worker basis) as it spends for other businesses in the city.

Calculation of Net Benefits for the City

Net benefits calculated in this analysis are the difference between additional city revenues over a ten-year period and additional city costs to provide services to the new firm and its workers and indirect workers who may move to the city.

Calculation of Revenues, Costs and Net Benefits for the County

The model estimates additional revenues, costs and net benefits for the county using the same methodology described for the city relying on county budget data.

Calculation of Revenues for Public Schools

The school district's revenues from property taxes were calculated on the new residential property for some new direct and indirect workers who may move to the county and on the firm's property that will be added to local tax rolls.

However, school district revenues from state and federal funds and other local funding were calculated using an average revenue approach. This approach used the assumption that the school district will collect about the same amount of these revenues for each new student in the household of a new worker who may move to the county as it currently collects for each existing student.

Calculation of Costs for Public Schools

A marginal cost approach was used to calculate additional school district costs from the new firm and its workers. This approach uses the assumption that the school district will spend about the same amount for variable or marginal cost for each new student as it spends for each existing student.

Calculation of Net Benefits for Public Schools

Net benefits calculated in this analysis are the difference between additional school district revenues over a ten-year period and marginal costs for the school district to provide services to students in the households of new workers who may move to the county.

The school district's total annual revenues and expenses to make average revenue and marginal costs calculations in this analysis were obtained from the school district's latest annual budget.

Calculation of Property Taxes to be Collected by Countywide Special Taxing Districts

Revenues for countywide special taxing districts from property taxes were calculated on the new residential property for some new direct and indirect workers who may move to the county and on the firm's property that will be added to local tax rolls.

While each of these special taxing districts may incur additional costs from new residents and from the new firm, these additional costs were not calculated in this analysis.

About Impact DataSource

Impact DataSource is an Austin economic consulting, research, and analysis firm founded in 1993. The firm has conducted over 2,500 economic impact analyses of firms, projects, and activities in most industry groups in New Mexico and more than 30 other states.

In addition, Impact DataSource has prepared and customized more than 50 economic impact models for its clients to perform their own analyses of economic development projects. These clients include the Frisco EDC in Texas and the Metro Orlando (Florida) Economic Development Commission.